

## Message Text

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AMEMBASSY DAKAR

INFO AMEMBASSY RABAT

AMEMBASSY TUNIS

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AMEMBASSY AMMAN

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SUBJECT: ALLEGED DUAL PRICING OF US PHOSPHATE INDUSTRY

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1. WE ARE REPEATING THE TEXT OF STATE 229912 TRANSMITTED  
17 SEPTEMBER WHICH GIVES OUR ANALYSIS OF WORLD PHOSPHATE  
MARKET AS REQUESTED REFTEL H.

2. SUMMARY. THE CURRENT EC COMPLAINTS AGAINST ALLEDGED  
DUAL PRICING OF PHOSPHATE ROCK BY US PRODUCERS REFLECT  
THE DECLINING CONDITION OF THE EUROPEAN PHOSPHATE-  
FERTILIZER INDUSTRY ACCORDING TO THE EC, US PHOSPHATE  
ROCK PRODUCERS CHARGE HIGHER PRICES TO EUROPEAN CUSTOMERS  
THAN TO AMERICAN. THIS PRICE ADVANTAGE ALLEGEDLY  
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ENABLES US PHOSPHATE-FERTILIZER PROCESSORS TO UNDERCUT  
EUROPEAN PRICES. NOTWITHSTANDING THE DUBIOUS VALIDITY  
OF THOSE CHARGES, THE EC PHOSPHATE INDUSTRY FACES A SERIOUS  
CHALLENGE TO ITS COMPETITIVE POSITION. LACKING DOMESTIC

RAW MATERIALS, EUROPEAN FERTILIZER FIRMS HAVE HIGH PRODUCT-  
ION COSTS STEMMING FROM THE NECESSITY TO IMPORT PHOSPHATE

ROCK AND SULPHUR. WESTERN EUROPE ALSO CAN NO LONGER  
DEPEND ON CHEAP ROCK SHIPMENTS FROM MOROCCO AND OTHER  
AFRICAN NATIONS, WHO ARE OUT TO MAXIMIZE THEIR MARKET  
POTENTIAL AND DEVELOP THEIR OWN COMPETING FERTILIZER  
INDUSTRY. FINALLY, AFTER RAPIDLY EXPANDING ITS  
PHOSPHATE MINING OPERATIONS AND PROCESSING FACILITIES IN  
RECENT YEARS, THE US HAS MADE DEEP INROADS IN THE  
EUROPEAN MARKET. DESPITE TARIFF BARRIERS. SOME  
EUROPEAN FIRMS ARE TRYING TO ADJUST TO THE TREND BY  
IMPORTING PHOSPHORIC ACID, INSTEAD OF ROCK, FOR PROCESS-  
ING. BUT THE OUTLOOK FOR AMPLE WORLD FERTILIZER  
SUPPLY OVER THE NEXT DECADE SUGGESTS THAT INTENSE PRICE  
COMPETITION WILL CONTINUE. UNDER THOSE CONDITIONS, HIGHER  
COST PRODUCERS, NAMELY WEST EUROPE, WILL PROBABLY SEE  
THEIR MARKET SHARES CONTINUE TO DETERIORATE. END SUMMARY.

3. PRODUCTION AND TRADE. THE US IS THE LEADING PRODUCER  
OF PHOSPHATE ROCK, ACCOUNTING FOR 41 PERCENT OF WORLD  
PRODUCTION OF 106.5 MILLION TONS IN 1975. THE USSR IS  
THE SECOND LEADING PRODUCER WITH ABOUT 23 PERCENT OF  
WORLD OUTPUT, FOLLOWED BY MOROCCO'S 13 PERCENT. ECONOMIC  
RESERVES IN MOROCCO, HOWEVER, ARE ESTIMATED AT FIVE TIMES  
THAT OF THE US. THE THREE LEADING ROCK EXPORTERS,  
MOROCCO, US AND USSR IN THAT ORDER, ACCOUNT FOR TWO-  
THIRDS OF WORLD TRADE, WHICH REACHED 43.4 MILLION TONS IN  
1975. THE BIGGEST NET IMPORTERS ARE WEST EUROPEAN  
COUNTRIES, WHICH CONSUME OVER 40 PERCENT OF PHOSPHATE  
ROCK EXPORTS.

4. MARKETING AND PRICES. IN THE US, ROCK PRODUCTION  
FOR DOMESTIC CONSUMPTION IS DOMINATED BY FIRMS WITH  
INTEGRATED MINING AND FERTILIZER PROCESSING OPERATIONS.  
THESE INCLUDE THE BIGGEST NAMES IN THE AMERICAN PHOSPHATE  
BUSINESS -- AGRICO SWIFT, INTERNATIONAL MINERALS, TEXAS  
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GULF, WR GRACE, AND MOBILE CHEMICAL. A SMALLER QUANTITY  
OF ROCK GOES TO INDEPENDENT FERTILIZER PROCESSING  
COMPANIES WHO NORMALLY PURCHASE ON LONG-TERM CONTRACTS  
WITH THE MINING CONCERNS. WITH MOST PRODUCTION RESERVED  
FOR INTEGRATED MINING-FERTILIZER FIRMS, THE DOMESTIC  
SALES MARKET IS THIN AND CHARACTERIZED BY LONG-TERM  
CONTRACTS RATHER THAN "SPOT" TRANSACTIONS.

5. ON THE EXPORT SIDE, SEVERAL LARGE ROCK PRODUCERS HAVE  
JOINED INTO AN EXPORT ASSOCIATION TO FIX THEIR EXPORT  
PRICES AND POOL MARKETING RESOURCES. AS EXPLAINED IN

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REFTEL B, THE WEBB-POMERENE LEGISLATION EXEMPTS SUCH ASSOCIATIONS FROM SOME ANTITRUST REGULATIONS. THE RATIONALE FOR THIS GROUPING -- CALLED PHOSROCK--IS THAT IT ENABLES US FIRMS TO BETTER COMPETE WITH LARGE STATE-CONTROLLED FIRMS OVERSEAS.PARTICULARLY MOROCCO'S OCP. NEVERTHELESS, PHOSROCK ACCOUNTS FOR SLIGHTLY LESS THAN HALF OF US ROCK EXPORTS, WITH MOST FIRMS

CONTINUING TO EXPORT INDEPENDENTLY.

6. PHOSCHEM IS A SIMILAR WEBB-POMERENE ASSOCIATION, WHICH MARKETS PHOSPHATE FERTILIZER ABROAD. THREE PHOSCHEM MEMBERS ALSO PARTICIPATEIN PHOSROCK (INTERNATIONAL MINERALS, OCCIDENTAL CHEMICAL, AND W.R. GRACE.) RECENTLY ONE OF THE COMPANIES WITH DUAL MEMBERSHIP, AGRICO, PULLED OUT OF PHOSCHEM, AND THAT ASSOCIATION CURRENTLY SHIPS LESS THAN HALF OF US PHOSPHATE FERTILIZER EXPORTS.

7. ON THE INTERNATIONAL MARKET, THE US APPEARED TO RESPOND TO MOROCCAN PRICE LEADERSHIP DURING THE 1973-74 BOOM IN FERTILIZER DEMAND. MOROCCO ANNOUNCED SHARP PRICE BOOSTS FROM 12 DOLLARS A TON TO PEAK OF 68 DOLLARS A TON DURING THAT PERIOD. US ROCK EXPORT PRICES ROSE WITH A LAG TO NEAR THE MOROCCAN LEVEL, BUT GENERALLY REMAINED BELOW THE PRICE LEADER. IN RESPONSE TO BURGEONING FERTILIZER DEMAND, US PRODUCERS INSTALLED SUBSTANTIAL NEW ROCK AND PROCESSING CAPACITY WHICH CAME ON LINE IN 1975. THE WORLD FERTILIZER MARKET LIMITED OFFICIAL USE  
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COLLAPSED IN THAT YEAR. THE RESULT PARTLY OF LARGER SUPPLY AND PARTLY CONSUMER RESISTANCE TO HIGH PRICES. TO KEEP NEW CAPACITY OPERATING, US PRODUCERS TOOK THE MARKET INITIATIVE AWAY FROM THE MOROCCANS. WITH US EXPORT PHOSPHATE ROCK PRICES ALREADY AT A LOWER LEVEL THAN MOROCCAN PRICE, MOROCCO STARTED REDUCING PRICES IN THE SECOND HALF OF 1975 IN AN ATTEMPT TO MAINTAIN SALES. BOTH COUNTRIES CONTINUED REDUCING PRICES THROUGH THE FIRST HALF OF 1976. THE WORLD PRICE OF DIAMMONIUM PHOSPHATE (DAP) PLUMMETED, FROM 400 DOLLARS A TON IN JANUARY 1975 TO ABOUT 100 DOLLARD INMID-1976. PHOSPHATE ROCK PRICES ALSO DECLINED SHARPLY--PHOSROCK'S F.O.B. TAMPA PRICE FOR TOP QUALITY 75 BPL ROCK DROPPED FROM 56 DOLLARS 30 CENTS A TON TO ABOUT 35 DOLLARS WHILE LOWER GRADE ROCK SANK TO UNDER 24 DOLLARS. EARLY MOROCCAN EFFORTS TO PROP UP ROCK PRICES BY RESTRICTING PRODUCTION

WERE OFFSET BY INCREASES IN US OUTPUT. OTHER PHOSPHATE ROCK PRODUCING COUNTRIES EITHER FOLLOWED THE COMPETITIVE PRICE DECLINE OF MOROCCO AND THE US OR FURTHER UNDERCUT

THESE PRICES. ALTHOUGH ACCURATE COST DATA IS DIFFICULT TO ACQUIRE, THE BUREAU OF MINES ESTIMATES THAT CURRENT PHOSPHATE ROCK PRICES ARE NEAR THE POINT WHERE NEW INVESTMENT IN THE US WOULD NOT BE PROFITABLE IN VIEW OF THE HIGHER COSTS INVOLVED. IN FACT, SOME US FIRMS HAVE

RECENTLY INDICATED THEY ARE POSTPONING EXPANSION PLANS. BOM PROJECTS US PHOSPHATE ROCK OUTPUT DECLINING IN 1976 TO 47 MILLION ST COMPARED TO 49 MILLION ST IN 1975.

8. TO SUMMARIZE DOMESTICALLY, MOST US PHOSPHATE ROCK GOES DIRECTLY FROM MINE TO ASSOCIATED PROCESSING FACILITIES, BY PASSING THE SALES MARKET. THE RELATIVELY SMALL VOLUME OF DOMESTIC ROCK SALES ARE NORMALLY ON LONG-TERM CONTRACT TERMS. MEANWHILE, INTERNATIONAL PHOSPHATE ROCK PRICES HAVE DEMONSTRATED SENSITIVITY TO CHANGING SUPPLY AND DEMAND CONDITIONS. AS THE MARKET HAS SHRUNK IN THE PAST TWO YEARS, PRODUCERS HAVE COMPETED GOROUSLY TO RETAIN CUSTOMERS. AMERICAN PRODUCERS, FAR FROM HOLDING UP EXPORT PRICES ARTIFICIALLY (AS IMPLIED IN THE EC COMPLAINT) HAVE COMPETED WITH OTHER PRODUCING COUNTRIES  
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TO EFFECT A SIGNIFICANT REDUCTION IN EXPORT PRICES.

9. THE DUAL PRICING ALLEGATION PRESUPPOSES THAT A GROUP OF AMERICAN FIRMS HAS SUFFICIENT MARKET POWER TO FIX PRICE LEVELS THAT DISCRIMINATE AGAINST A PARTICULAR CUSTOMER. IF THE US WERE THE ONLY, OR DOMINANT, SUPPLIER OF PHOSPHATE ROCK TO THE WORLD, DUAL PRICING MIGHT BE FEASIBLE. BUT IN FACT, US EXPORTS IN 1975 WERE ONE-QUARTER OF THE WORLD TOTAL SECOND TO MOROCCO'S 30 PERCENT SHARE. IN ADDITION, FIVE OTHER COUNTRIES WERE IMPORTANT EXPORTERS: USSR (13 PERCENT) TUNISIA (4 PERCENT), SENEGAL (4 PERCENT), TOGO (3 PERCENT) AND JORDAN (3 PERCENT). AS FOR THE EC, THE US IS NOT EVEN THE MAJOR SOURCE OF PHOSPHATE ROCK. IN 1975, THE US ACCOUNTED FOR 19 PERCENT OF IMPORTS. LESS THAN HALF OF WHICH REPRESENTED PHOSROCK SHIPMENTS. MOROCCO, ON THE OTHER HAND, SUPPLIED HALF OF EC ROCK IMPORTS. OF THE MAJOR EC COMPLAINTANTS, FRANCE BOUGHT ONLY 10 PERCENT OF ITS PHOSPHATE ROCK FROM THE US IN 1975, ITALY 12 PERCENT, AND IRELAND BOUGHT ROCK FROM THE US. GERMANY

WAS OUR LARGEST EC CUSTOMER, BUYING 47 PERCENT OF THEIR REQUIREMENT FROM US. CURIOUSLY THE FRENCH ALMOST TRIPLED ROCK IMPORTS FROM THE US BETWEEN FY 75-76, CONCURRENTLY REDUCING MOROCCAN IMPORTS, NOTWITHSTANDING ALLEGED UNFAIR US PRICING PRACTICES. THESE FACTS WEAKEN THE CASE FOR A VALID EC COMPLAINT.

10. WHAT PRICE DIFFERENTIALS DO EXIST IN THE US MARKET ARE EXPLAINABLE IN ECONOMIC TERMS: FOR EXAMPLE, DIFFERENCES BETWEEN SPOT AND LONG-TERM CONTRACT PRICES, PRICE DIFFERENTIALS BASED ON GRADE, FREIGHT RATES, DISCOUNTS FOR TRADITIONAL CUSTOMERS AND SHORT-TERM PRICE VARIATIONS BETWEEN MARKETS. SUCH OCCURRENCES ARE THE RESULT OF NORMAL BUSINESS PRACTICE OR IMPERFECT INFORMATION. THEY DO NO REPRESENT APPLICATION OF MARKET POWER TO DISCRIMINATE AGAINST PARTICULAR CUSTOMERS.

11. THE EC COMPLAINT REFLECTS THE HARD TIMES THAT HAVE BEFALLEN THE WORLD FERTILIZER INDUSTRY, PARTICULARLY EUROPE'S. AS EXPANSION OF SUPPLY HAS OVERTAKEN DEMAND LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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GROWTH, THE ONCE TIGHT SELLER'S MARKET GAVE WAY TO A BUYER MARKET. FIERCE PRICE COMPETITION THAT RESULTS FROM COMPANIES VYING TO PROTECT MARKET SHARES NATURALLY FAVORS EFFICIENT PRODUCERS INTEGRATED WITH RAW MATERIALS SOURCES. EUROPE'S PHOSPHATE FERTILIZER PRODUCERS ARE TOTALLY DEPENDENT ON IMPORTS. GIVING THEM GENERALLY HIGHER COSTS THAN VERTICALLY INTEGRATED AMERICAN FIRMS. IT IS MORE EFFICIENT TO PROCESS PHOSPHATE ROCK NEAR THE MINE THAN TO SHIP IT OVER LONG DISTANCES, SINCE ONLY ABOUT ONE-THIRD OF THE ROCK CONTENT IS PHOSPHATE (P2O5). IN SHORT, DIFFERENTIAL COSTS NOT ISCRIMINATORY CARTEL PRACTICE" ARE NOW THREATENING THE EC FERTILIZER

INDUSTRY. WHEN DEMAND WAS HEAVY AND SUPPLY TIGHT IN 1973-74, FERTILIZER COMMANDED PREMIUM PRICES, HIGH ENOUGH TO SUPPORT THE LESS EFFICIENT FIRMS. NOW THAT SUPPLY HAS OVERTAKEN DEMAND, LOWER COST US PHOSPHATE FERTILIZER IS CHIPPING AWAY AT THE EUROPEAN MARKET DESPITE TARIFF BARRIERS. IT SHOULD BE NOTED THAT EASTERN EUROPEAN EXPORT, ESPECIALLY NITROGEN, ARE ALSO DENTING THE WEST EUROPEAN MARKET AND ARE PARTLY RESPONSIBLE FOR THE GROWING CONCERN IN THE EC FOR THE SURVIVAL OF THEIR FERTILIZER INDUSTRY. FINALLY, THE TENDENCY AMONG EC GOVERNMENTS TO CONTROL FERTILIZER PRICES TO FARMERS WHILE SUBSIDIZING DOMESTIC FERTILIZER PRODUCERS

MAY ALSO HAVE A BEARING ON THE INDUSTRY'S COMPETITIVENESS.

12. REACTING TO GROWING FOREIGN COMPETITION, SOME EC PRODUCERS ARE BEGINNING TO REPLACE IMPORTS OF PHOSPHATE ROCK WITH PHOSPHORIC ACID FROM VARIOUS SOURCES. AS NOTED IN REFTEL B. THE ACID IS IN AN INTERMEDIATE STAGE IN THE FERTILIZER PROCESS, PRODUCING A HIGHER PHOSPHATE CONCENTRATION THAN IN ROCK. ALTHOUGH THE VALUE ADDED OF EUROPEAN PROCESSING WILL BE LESS THAN WITH IMPORTED ROCK ACID IMPORTS SHOULD LOWER EUROPEAN COSTS AND

YMPROVE THEIR COMPETITIVE POSITION.

13. US PHOSPHATE FERTILIZERS STILL FACE EC TARIFF  
BARRIER -- 4.8 PERCENT AD VALOREM FOR TRIPLE SUPERPHOSPH  
AND 6.6 FOR DAP BASED ON CIF PRICE (ROCK ENTERS FREE, BUT,  
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CURIOUSLY PHOSPHORIC ACID HAS A 13.2 PERCENT DUTY).  
AGRICO'S RECENT PURCHASE OF A COFAZ INTEREST COULD BE  
INTERPRETED AS A MEASURE TO PROTECT AND EXPAND ITS  
EUROPEAN MARKET, EVEN THOUGH THAT MAY NOT BE THE MOST  
COST EFFICIENT COURSE. AMERICAN FERTILIZER PRODUCERS  
ARE ANTICIPATING STIFF COMPETITION FROM MOROCCO IN THE  
NEAR FUTURE. ALTHOUGH ALMOST ALL OF MOROCCO'S ROCK  
OUTPUT IS NOW EXPORTED, RABAT IS DEVELOPING MAJOR  
FERTILIZER PROCESSING FACILITIES OF ITS OWN. WITH DUTY  
FREE ACCESS TO THE EC FERTILIZER MARKET, MOROCCO HAS  
COMPETITIVE EDGE OVER US FERTILIZER EXPORTS.

14. CONCLUSION. THE OUTLOOK FOR THE REMAINDER OF THE  
DECADE IS FOR AMPLE PHOSPHATE SUPPLIES WORLDWIDE AND  
FAIRLY STABLE PRICES. WESTERN EUROPE'S FERTILIZER  
INDUSTRY WILL PROBABLY CONTINUE TO FACE INTENSE COMPETIT-  
IVE PRESSURE FROM THE US AS WELL AS MOROCCO AND OTHER  
PRODUCING COUNTRIES. EC FERTILIZER FIRMS CAN NO LONGER  
RELY ON CHEAP ROCK IMPORTS FROM MOROCCO OR OTHER  
AFRICAN NATIONS, AS THEY HAD BEFORE 1973. RECOGNIZING  
THE RISING TREND IN PHOSPHATE ROCK VALUE THE FRENCH  
FIRM GARDINIER BOUGHT MINING INTERESTS IN THE US SEVERAL  
YEARS AGO. THE AGRICO-COFAZ AGREEMENT AND THE PLANNED  
BEKER INVESTMENT IN WEST GERMANY ARE OTHER EXAMPLES OF  
ATTEMPTS TO GAIN CONTROL OF PHOSPHATE ROCK SUPPLIES FOR  
EUROPEAN PRODUCTION. PHOSPHORIC ACID IMPORTS IN PLACE OF  
ROCK COULD ALSO IMPROVE EUROPEAN COMPETITIVENESS, BUT  
WILL PROBABLY NOT PREVENT A CONTINUING LOSS OF MARKET

SHARE TO LOWER COST FOREIGN PRODUCERS, UNLESS EC TRADE  
RESTRICTIONS HALT THIS TREND. ROBINSON

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